

## Chapter 1.8

# Entrepreneurship in the European Union: Unified is not Uniform

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### ABSTRACT

*Entrepreneurship research posits that high potential new firms are the leading source of employment growth (Acs et al., 2008), wealth creation (Venkataraman, 1997), and economic development (EC, 1999). The European Union's Lisbon Strategy recognized the significant role of entrepreneurs in creating employment (EC, 2000). The authors posit that a "Unified Europe" is not the same as a "Uniform Europe." Using states in the United States as a comparative unit of analysis, the authors demonstrate ways in which differences in endowments (e.g., human capital, support for entrepreneurship, and regulatory environment) dynamically influence entrepreneurial outcomes. This analysis identifies challenges faced by local entrepreneurs in the context of Europe 2020.*

### INTRODUCTION

Entrepreneurship research posits that high potential new firms are the leading source of employment growth (Acs et al., 2008), wealth creation (Venkataraman, 1997), and economic development (EC, 1999). Recognizing the significant

role of entrepreneurs, the Lisbon Strategy (EC, 2000) sought to usher in an era of full employment by investing in human resource development, strengthening the link between research institutes, universities, and businesses; reducing red tape and other local business entry regulations, and developing green technologies to reduce the impact of economic growth. In essence, the Lisbon Strategy posited that innovation was a central ingredient

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in economic growth and the entrepreneurs were agents of innovation.

The final years of the Lisbon Strategy found a world in economic disarray with major economies in deep recession. The preface to the Europe 2020 document described in grim terms the state of the European economy: millions unemployed, a lasting burden of debt, and pressures on social cohesion. In designing a path out of the crisis, the European Commission proposed seven flagship programs. The very first focuses on the importance of innovation. The *innovation union* seeks to improve entrepreneurial infrastructure and provide greater access to financing to turn innovative ideas into job creating goods and services (EC, 2010).

Clearly, a “Unified Europe” expects entrepreneurs to fill an important role in a post-crisis economy. Given European unification, high potential entrepreneurs might serve as an economic growth engine in a post-crisis economy. Further, entrepreneurs in a “Unified Europe” operate within a common economic and financial environment that includes greater freedom in the movement of goods and services and in many cases a common currency.

The authors posit that a “Unified Europe” is not the same as a “Uniform Europe”. Using states in the United States as a comparative unit of analysis, the authors demonstrate ways in which U.S. states, comparable in size and resources to emerging European economies, have differing endowments, business and technology clusters, economic policies, workforce development levels, and quality of life standards. These differences dynamically influence entrepreneurial outcomes, e.g., firm start-ups, patent applications, and business failure rates. From this analysis, the authors compare U.S. state contexts to those faced by European countries to identify challenges faced by local entrepreneurs in the context of Europe 2020.

## **Theoretical Background**

There is a growing body of literature that relates the environment in which businesses operate to

outcomes. These outcomes include the growth of existing firms, the creation of intellectual property, and the presence and rate of growth and entrepreneurial firms. Based on this literature policymakers often view their toolkit is a set of policy levers, variables governments can manipulate to improve the efficacy of business.

Entrepreneurship scholars often segment entrepreneurial activity into three distinct categories; necessity entrepreneurship, general entrepreneurship, and high potential entrepreneurship. Necessity entrepreneurship describes individuals creating work for themselves when no other job opportunities exist. In developed countries, little attention is given at the policy level to creating frameworks that support necessity entrepreneurship.

Most entrepreneurial activity falls under the rubric of general entrepreneurship. Entrepreneurs assume the risk of starting a small business that will ultimately employ a very limited number of workers. Governments are most interested in high potential entrepreneurs or what is often referred to in the literature as gazelles. These high potential firms have the remarkable capacity to create jobs nearly from their inception. A common feature to these firms is the creation and exploitation of intellectual property.

Gazelles than are the top of the job creation food chain. It is reasonable to note that governments focus much of their attention on creating policies that support high potential entrepreneurs. Many of these policies occur at the national level, e.g., laws to protect intellectual property, and educational systems that train young students in science, technology, engineering, and mathematics--the root knowledge in most intellectual property creation.

Clearly, there is a link between facilitating entrepreneurship and economic development. While there are distinct differences in various policy regimes, the entrepreneurship literature clearly suggests that entrepreneurs are more viable in countries or regions with fewer regulations, lower barriers to entrepreneurial entry, access to highly educated workers, and access to capital.

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